

Financial Institutions and the Economic Crisis in Asia¹
Banking Crises and the Evolution of the Regulatory Framework in
Hong Kong 1945-70
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In the East Asian financial crisis of 1997, Hong Kong initially emerged relatively unscathed and was able to defend the pegged exchange rate on which its status as an international financial centre depended, although this has been at some considerable longer term cost to the competitiveness and performance of the Hong Kong economy. The soundness and transparency of the Hong Kong financial system is widely credited with allowing Hong Kong to avoid the worst excesses that brought down the financial and economic systems of other Asian countries such as South Korea and Japan. This paper explores the evolution of this regulatory framework in the post-war period, revealing the reluctance with which the colonial authority introduced prudential supervision and transparent practices, and the very gradual way in which this regulatory environment was improved over the decades. The enhancement of regulation and supervision was achieved in a piecemeal way in response to a long series of banking crises rather than as a goal of the colonial authorities in itself. Partly this reflected the dominant position of international banks that were subject to regulation and supervision in their home territories.² Nevertheless, the proliferation of poorly supervised large and small Hong Kong registered banks prompted a series of damaging banking crises in the 1960s, exposing problems that were not resolved until after the banking and currency crisis of 1982-84 and some of which persisted into the 1997 crisis.

In the 1950s and 1960s, the Hong Kong banking system was notoriously unregulated, and this reflected the general attitude of the colonial government to financial and commercial enterprise in the colony. Free trade and freedom from exchange control were the foundations of the colony's prosperity from its origins as an entrepot for the China trade to the West. These basic tenets continued to dominate the state's attitude to international activity, although the state was gradually drawn in to the provision of subsidised housing and other social programmes in the domestic sphere.

Banking legislation was first introduced in 1948 after claims that small, under-capitalised banks were springing up in response to flight capital from China to engage

in unstable speculative activity arising from the monetary and political collapse of China during the Civil War from 1946-49³. Certainly there were opportunities to accumulate personal fortunes through financing smuggling, speculation against the collapsing Chinese currency and smuggling of gold were widespread and this coincided with an increase in the number of financial institutions in Hong Kong. By mid-1947 about 250 institutions offered banking services; including 14 European/American banks, 32 Chinese commercial banks, 120 native banks, 76 exchange shops and 20 others including insurance companies⁴.

The Banking Ordinance of January 1948 defined 'banking' very loosely, and included many small institutions that provided only a limited range of financial services⁵. There were no reserve requirements, nor statutory liquidity ratios, and no requirement to publish or even to prepare complete balance sheets. So long as the HK\$5000 license fee could be raised, individuals or groups were free to attract deposits and operate as banks. By paying a smaller fee of HK\$500, money changers could offer more restricted services. A Banking Advisory Committee was established to enforce the Ordinance comprising the Accountant General, the Financial Secretary and representatives from the 2 largest banks at the time, the Hongkong and Shanghai Bank (Hongkong Bank) and the Bank of East Asia.

The boom associated with the collapse of the Nationalist regime in China came quite abruptly to an end after the summer of 1949 and the establishment of the People's Republic of China. This, and the subsequent slump in the international gold market in the early 1950s, weeded out many of the smaller institutions that were engaged primarily in smuggling or exchange speculation, but this did not prompt loss of confidence generally in the banking system. In 1948 143 banks were licensed under the new ordinance but this total soon declined. By 1950 there were 133 licensed banks, 92 by 1954, and 82 by 1959. While the number of banks declined, the rate of banking accelerated rapidly. Bank deposits as a proportion of GDP increased from about 41% to 70% between 1959 and 1964.

The rapid expansion of the banking sector in Hong Kong resulted from the eager adoption of the 'banking habit' by the local population, particularly as branch networks spread quickly into densely populated residential areas. In addition there was a considerable (although not well quantified) inflow of deposits from overseas Chinese that came to comprise half of total bank deposits, according to some estimates.⁶ Deposits were also swelled as banks sought to attract funds to engage in

speculative booms in the stock exchange and the property market. The first major post-war banking crisis of 1961 exposed the dangers of unregulated financial expansion driven by such booms.

Banking Crisis of 1961

The first post-war stock market ‘boom’ began in October 1959, partly due to inflows of capital from overseas. Investors were attracted to the shares of companies with large land holdings once property values had soared in the wake of local and overseas speculation.⁷ The boom was fuelled by the flotation of several prominent companies such as Taikoo Dockyard and Engineering Company (1959), Jardine Matheson (1961) and Kowloon Motor Bus (1961). Share prices on average doubled between 1959 and mid-1961. Applications for the new issues had to be accompanied by signed cheques for the required amount, all of which were cleared through the banks although only a fraction would result in a final purchase since the issues were so oversubscribed. The result was a considerable drain on the liquidity of many smaller local banks, requiring the Hongkong Bank to provide overdrafts and other facilities to several small banks.⁸

The Liu Chong Hing Bank was typical of the expansion and illiquidity in the banking system in these years. In 1948 Liu Po-Shan established the Liu Chong Hing Savings bank in the Western District of Hong Kong to collect savings and small deposits of the Chinese community. It was incorporated in 1955 as the Liu Chong Hing Bank with a registered share capital of HK\$5m of which \$HK4m was fully paid up. Three years later the registered share capital was expanded to \$HK20m of which \$HK10m was paid up, and the first branch was opened in Mongkok. In 1960 alone, the bank opened further branches in Causeway Bay, Kowloon City and Sham Shui Po⁹.

In June 1961, there was a run on the bank after it was weakened by property speculation, the liquidity squeeze that accompanied the stock market boom, and by rumours of fraud. The Liu Chong Hing Bank reported that ‘depositors were misguided by malicious rumours’¹⁰ which claimed that the police were investigating the bank and that its general manager had been asked to leave Hong Kong. Under the pressure of depositors’ withdrawals, the Hongkong Bank and the Chartered Bank of India, Australia and China were asked to support the bank (the Chartered had been its main banker). Instead of an emergency loan, in the end a debenture was taken with a

specific charge on certain properties. Eventually the run was ended after the press and radio reported that the Hongkong Bank and the Chartered Bank were offering support¹¹. In fact, the problem was one of liquidity rather than solvency but it was indicative of some of the risky banking strategies that were being employed during the boom period. Investigation by Tomkins of the Bank of England revealed that

‘the trouble was caused by the [Liu Chong Hing] Bank getting too deep into property (they have come out very much on the right side now) for its own account and for account of the former Managing Director Liu Po Shan who has since died. Shan dipped into the till to the extent of HK\$8m leaving his cheque in the safe in place of the cash i.e. ‘borrowing’ and not ‘stealing’. The bank in its returns counted Shan’s cheque as cash!’¹²

Liu Chong Hing Bank was allowed to continue trading with a reconstituted Board of Directors (including four members of the Liu family), but this did not resolve the general banking situation¹³.

In 1997, as in the 1960s, asset market speculation was also a prominent feature of the Asian financial crisis, both in Hong Kong and elsewhere. For example, the collapse of the property bubble in Japan in the early 1990s exposed the fragility of their banking system to an extent that has not yet been recovered. In Hong Kong, property speculation also weakened the banking system. In 1996 about 59% of the net increase in bank loans and advances was related to the property market and in September 1997 (just before the crisis hit Hong Kong) 47% of outstanding bank lending was related to the property market.¹⁴ Property prices peaked in the third quarter of 1997 (after the outbreak of the Asian crisis in July) and fell sharply thereafter.¹⁵ When currency speculators struck in October 1997, the stock exchange index fell 23% in four days. Falling asset markets were also a feature of the Hong Kong banking crisis of 1982-86.¹⁶ The dangers of banks’ exposure to stock exchange and property values was highlighted by Hong Kong’s first banking crisis 20-30 years before, which led unsuccessfully to an attempt to improve prudential regulation through the revision of the 1948 Banking Ordinance in Hong Kong.

In June 1960, the Hong Kong Financial Secretary, AG Clarke, complained that ‘control over banks was quite ineffective and there was a need to enjoin stricter standards if the risk of serious failure by some of the Chinese banks was to be avoided’¹⁷. He also reportedly favoured the establishment of a central bank in

principle.¹⁸ The desire for a central bank from the government's point of view was to help with bank supervision and to facilitate raising government debt for infrastructure expenditure. The Bank of England advised that 'the main argument against introducing a central bank is that, inevitably, it would do irreparable harm to the Hongkong Bank, which would not readily give up its paramount position in the Colony's financial affairs'.¹⁹ This probably overstated the case but certainly, as we shall see, the Hongkong Bank was hostile to a central bank.

Clarke's successor in 1961, J.J. Cowperthwaite, was not nearly as enthusiastic about enhanced supervision. After the 1961 banking crisis the managers of the Hongkong Bank and the Chartered bank both lobbied the Bank of England directly to encourage the Financial Secretary to improve inspection and standards.²⁰ By the end of 1961 the manager of the Hongkong Bank was himself beginning to draft a new banking ordinance and the Hong Kong government formally invited a Bank of England representative to give advice. In February 1962 HJ Tomkins arrived in Hong Kong to prepare new banking legislation.²¹

Oliphant, deputy manager of the Hongkong Bank, hoped to involve the government in regulating opening hours, interest rates and lending policy, but Tomkins did not want the Financial Secretary to have powers similar to those of a central bank. Nor were these powers within the desire or capabilities of the new Financial Secretary, J.J. Cowperthwaite, (Tomkins described him as 'near doctrinaire "laissez-faire"'²²). Tomkins reflected that 'I was reluctant to leave a lot of taps and levers lying around for inexperienced hands to twiddle.'²³ Interestingly, he found considerable support for a central bank among Chinese banks in Hong Kong. He noted that

'during my enquiries SH Ho and QW Lee of the Hang Seng and Poon of the Ming Tak all advocated a central bank or at least some sort of mutual support association. YH Kan of the Bank of East Asia favoured the former while YN Lee of the Canton Trust and Commercial Bank, and Lamson Kwok of the Wing On Bank advocated the latter.'²⁴

Many local Chinese banks advocated a central bank, mostly to remove the special status accorded to the Hongkong Bank and Chartered Bank as suppliers of currency and bankers to the government (Williams, 1963: 40). A call for a central bank by the Wah Kiu Yat Po in 1966 noted the need for bank supervision, an independent note

issue, and lender of last resort.²⁵ On the other hand, in a bitter and defensive article for the *Far Eastern Economic Review* in April 1965 (at the peak of the second banking crisis of the decade) R.G. Oliphant concluded that ‘a Central Bank would be an expensive luxury’ since the Hongkong Bank itself performed most of the duties of a central bank in terms of lender of last resort and issuing currency.²⁶ He also took the opportunity to criticise the government for not restricting the number of banks in the Colony to prevent excessive competition, suggesting that ‘it is a pity that Government regard with suspicion any advice given by bankers, as they thereby deny themselves the full benefit of the enormous fund of technical knowledge and experiences which exists’.

Tomkins’ draft banking ordinance was published in April 1962 and was then debated by banks and the government to produce a bill for the Legislative Council. Final legislation was delayed by disagreements over the details, a lack of enthusiasm on the part of the Hong Kong government, and finally a volte face by the banks after they had agreed to the first version of the Bill put before council in June 1963.²⁷ Tomkins sought to ensure that licensed banks had a minimum capital of HK\$5m (a limit that had been enforced informally since 1960) and that capital and open reserves should amount to at least 5% of deposits. Specified liquid assets should be at least 25% of deposits. Banks were finally required to audit their books and to publish balance sheets. More confidentially, banks were to report their accounts monthly and quarterly to a new Banking Commissioner and to the Financial Secretary. Fines were to be used to enforce the new regulations, and the Banking Commissioner could assume control of a bank in default of these regulations with an ultimate sanction of withdrawing the licence or requiring the bank to wind up its business.

The main bones of contention about Tomkins’ proposals were the rules that sought to constrain banks from the very activities which had contributed to the banking crisis of 1961; lending to close associates, and speculating in real estate and the stock market. These prudential regulations were received with hostility from both Chinese and ex-patriate British banks. The Chinese banks objected strongly to Tomkins’ suggestion that the value of investment in real estate and shares should not exceed 25% of paid up capital and reserves since this was a considerable and lucrative part of their business.²⁸ The Hongkong Bank objected to the proposed restrictions on unsecured loans to businesses in which the Directors of a bank had an interest. This was because Directors of the Hongkong Bank were on the boards of over 100 local

companies.²⁹ The nature of these objections reflected the relatively narrow business sector in Hong Kong, with its closely intertwined commercial and business networks as well as the important role of property investment in overall portfolios. Before publishing his draft ordinance, Tomkins reported that ‘Saunders [Hongkong Bank] was not very happy but reluctantly said that I must, of course, recommend what I thought fit.’³⁰

After considerable debate, these controversial activities were grouped together so that investment in real estate and shares as well as unsecured advances to companies in which the banks’ directors had an interest together could not exceed 55% of capital and reserves. There was an individual limit of 25% for any one element of the group. Loans directly to a bank’s directors or their families were more tightly restricted to 1% of paid up capital or HK\$250,000, whichever was the lower figure. The British Colonial Office found the regulations on unsecured advances much too relaxed. They also insisted that random spot-checks be made to ensure that the regulations were really being adhered to. Furthermore, they suggested that a list of reputable auditors should be drawn up to prevent the publication of fraudulent or misleading accounts.³¹ After languishing in London for several months, the new bill was finally submitted to the Hong Kong Legislative Council in September 1964 and came into force in December, with a one-year grace period to allow banks to conform to the liquidity requirements. The financial secretary, Cowperthwaite, initially resisted spot-checks, believing this would be unwelcome among Chinese bankers in particular.³²

Interest rates on deposits were left to self-regulation by the banks themselves through the operation of an interest rate agreement to prevent ‘excessive’ competition that might be based on unstable foundations or encourage risky lending behaviour to earn enough to repay depositors. The Exchange Banks’ Association (led by the Hongkong Bank) devised a grid of graduated interest rates to be offered to attract deposits and regulated by the banks themselves. Cowperthwaite was opposed to such a collusive agreement on the grounds that it unwisely hampered free competition. In the end, however, a scheme was finally agreed in July 1964 which established a ladder of rates with ‘basic’ interest rates offered by foreign banks and the leading Hong Kong banks, and a graduated scale for other categories of banks stepping up by ½% on the basic rate³³. It was designed to enable smaller banks to compete for deposits with the larger banks, but also to constrain such competition to avoid upward drift in interest rates. Interest rate rules remained in force until July 2001.

The Banking Crisis of 1965

The ink was barely dry on the 1964 Banking Ordinance when it became clear that it was inadequate protection against a crisis, although it was not fully in force until December 1965. Like the 1961 crisis that provoked the new legislation, the 1965 Banking Crisis was also related to property and stock exchange bubbles and also to fraudulent or at least imprudent activity. The stock exchange index peaked at the end of February before falling precipitously for the next two months. Given the timing it is likely the collapse of the stock exchange was a result rather than a cause of the February crisis. The property market was more causally related to the 1965 crisis. Near the end of 1964, property prices began to fall after a spurt of speculative building in the first half of 1963 when builders had rushed to initiate projects before the introduction of a new Building Ordinance. The market was also depressed by banks' sale of property assets to conform to the new Banking Ordinance.³⁴ This left many banks (especially Chinese banks) overexposed as the demand for funds associated with the Chinese New Year approached.

The Ming Tak Bank was a sole proprietorship mainly engaged in foreign exchange and property speculation, with 2 branches in Hong Kong (including one at the airport) and a poor reputation. The Bank of England reported at the beginning of January 1965 that Ming Tak was under investigation by the Banking Commissioner and that its difficulties arose from the onerous repair and maintenance terms of its lease in Victoria City, which made its problems seem more of liquidity than solvency.³⁵ Near the end of January 1965, however, US\$7m of its US cheques were dishonoured prompting a run by depositors. The owner, Poon Kai-kwong was granted a receiving order for 42 days to forestall creditors but was forced to declare bankruptcy at the end of April. Ming Tak had HK\$12m in deposits as part of HK\$21m in total liabilities. These were almost matched by illiquid property assets. Of the total HK\$20m in assets, 93% was real estate, including unfinished projects where the loan could not be liquidated. In the end the government spent HK\$8m paying off mortgages on property owned by Ming Tak and advanced a further HK\$2m to finish construction of some of the bank's projects.³⁶

The run on Ming Tak was followed less than two weeks later by a two day run on deposits of the Canton Trust and Commercial Bank (with 25 branches) which was also heavily involved in the property market. The Hongkong Bank met with Canton

Trust over the Chinese New Year holiday and agreed to lend Canton Trust HK\$25m, but believed that the general crisis was caused by ‘Government reluctance to take firm action in the case of Liu Chong Hing or to limit the number of banks’.³⁷ Jao and Davies suggest that the announcement of support from the Hongkong Bank was mismanaged, which undermined its effect on confidence. Soon after informing the public that they intended to extend loans to the Canton Trust, the Hongkong Bank revised its statement to make clear that this support would not be unlimited.³⁸ The Canton Trust subsequently suspended business on 8 February and was taken under the control of the Banking Commissioner. Worried depositors then queued up to withdraw their cash from other Chinese banks, including Hang Seng, Kwong On, Dao Heng and Wing Lung. The runs were halted temporarily by the news that the Hongkong Bank and the Chartered Bank were willing to act as lenders of last resort.³⁹

On 15 April the Financial Secretary petitioned the Supreme Court to put the Canton Trust out of business. At the hearing on 8 May, depositors demonstrated vocally outside the courthouse, and a group of 208 creditors made an effort to subpoena the Banking Commissioner to appear before the hearing, presumably to explain his possible lack of oversight of the bank’s activities.⁴⁰ This effort failed and on 12 May a liquidation order was issued. The claims of creditors amounted to about HK\$120m and after the order to liquidate the government offered to advance HK\$30m to allow depositors quickly to realise a 25% pay-back. Despite the *laissez-faire* attitude to the financial system, the government again felt compelled to offer assistance to lessen the impact of the bank failures on the public and to restore confidence.

More importantly, the government feared that the banking crisis would generate a large negative monetary shock, especially since it was near the Chinese New Year when the local demand for cash was seasonally high. Emergency banking legislation restricted cash withdrawals to HK\$100 per day, and HK\$50m of new currency was imported into the colony on 9-10 February.⁴¹ The emergency regulations also empowered the Banking Commissioner to order banks to surrender all surplus cash to the note-issuing banks. As a further guard against a cash shortage, sterling was declared a temporary parallel legal tender and £20m was made available from the Bank of England of which £5m arrived on 11 February. Although the sterling was not in the end put into circulation, these measures all contributed to the restoration of

confidence and a cash crisis did not emerge. The ensuing relaxation of pressure on the banking system, however, proved to be only a lull in the crisis.

On 9 April, several Chinese newspapers published reports suggesting that the police were interviewing the Chairman of Hang Seng and a run began on this, the largest local Chinese bank. By the end of the day, savings and current account deposits were half the level they had been at the end of 1964. Negotiations were hastily convened and the take-over of Hang Seng by the Hongkong Bank was announced the following day.⁴² The Hongkong Bank bought 76% of the share capital of Hang Seng for HK\$76m on the understanding that ‘the major part’ of the funds were to remain within the business group that owned Hang Seng and used to repay overdrafts to Hongkong Bank and Hang Seng itself. Furthermore HK\$25m of the funds were to be set aside for Hang Seng’s holding company to re-purchase 25% of the stock by the end of 1965, leaving Hongkong Bank with a 51% holding.⁴³

Figure 1 shows that the liquidity of the banking system as a whole fell steadily from the mid-1950s from above 50% to below 30% by the end of 1964.⁴⁴ Figure 2 shows that the ratio of loans to deposits also crept up over this period from 55% to close to 70%. The liquidity of the Hang Seng Bank was consistently higher than the banking sector as a whole until 1965, but was considerably below that of the cautious Bank of East Asia. At Hang Seng, the ratio of specified liquid assets to deposit liabilities fell from 31% at the end of 1964 (well above the 25% set by the new ordinance) to 16.5% after the run of February 1965 and then to a low of 6% by the time Hang Seng was taken over in April.⁴⁵ The near-failure of the Hang Seng quickly spread renewed panic as depositors sought to get their cash out of other banks. The Tai Sang and Wing Lung banks were worst hit, with each losing about 38% of their deposits.⁴⁶ The panic was gradually eased, however, after the Hongkong Bank bought Hang Seng Bank and bailed out of various other banks (such as the Yau Yue Commercial Bank and the Far East Bank) with the help of the Chartered Bank.

An analysis of the difficulties of the Hang Seng Bank and the Yau Yue Commercial Bank reveals many of the problems in Hong Kong’s banking system. Some of the causes of the failure of the Hang Seng obviously were the result of the panic spread by the failure of other banks in the first quarter of 1965 which led to a nervous and cautious attitude by depositors. However, not all of the weakness were ex post. In May 1965 90% of all Hang Seng’s secured advances were against landed property, leaving them in a particularly illiquid position as property prices fell.⁴⁷

Lending practices were also a factor. Repayment schedules were arranged but not always adhered to. Instead loans and overdrafts were periodically reviewed and usually renewed automatically.⁴⁸ This flexible tradition was valuable to the bank's customers and the Hongkong Bank agreed after the take-over that new firmer arrangements could not be imposed on existing borrowers who might be tempted to take their business elsewhere.⁴⁹ For the year 1965 a total of HK\$204,015 in debts had to be written off and a further HK\$801,196 were deemed doubtful. These together accounted for 0.2% of debt outstanding at the end of April 1965. Of the debt written off, 35% were loans and a further 24% were inward bills. A somewhat higher proportion of doubtful debt was loans (47%) and inward bills (35%). Bad and doubtful loans were all against mortgaged property as security (shops, factories and apartments) and were mainly fixed loans and overdrafts. The borrowers included firms and individuals.⁵⁰

The Hongkong Bank considered fixed loans against property to be a major weakness of Hang Seng's portfolio, and once they took over administrative control of the bank they insisted that this category of debt be reduced.⁵¹ Also, the proportion of advance to security value against property was up to 65%-75% at the Hang Seng Bank compared with 50% at the Hongkong Bank. The Hongkong Bank found only a few cases of overvaluation of property, related to efforts to appeal to customers that generated considerable amounts high-margin exchange business.⁵²

The problems of the Hang Seng also related to its involvement in non-banking activity. The Hongkong Bank's progress report of September 1965 noted that

One is well aware that Hang Seng do not operate merely in banking activities and that their rapid growth, popularity and expanding balance sheet has been due to participation in profitable outside activities, the funds for which they have been able to acquire without difficulty. Their downfall arose when these funds were demanded back from them and they could only make repayment with our massive assistance, partly backed by Govt.⁵³

The implication is that the Hang Seng were accumulating deposits for profitable (but not liquid) investment through other non-banking avenues. Hang Seng Bank was part of a network of companies engaged in a wide range of businesses. The holding company, Hang Chong Investment Co. Ltd., owned a property investment company, a trading company, and a taxi company as well as Hang Seng Bank.⁵⁴ The bank was

the largest concern with HK\$30m in paid up capital, more than twice the amount of the other three companies combined.⁵⁵ The directors of Hang Chong Investment Co. Ltd. also had interests in Macao, the Miramar Hotel and hydrofoils.⁵⁶ After the run on the Hang Seng Bank began at the start of April, HK\$48m of secured overdrafts were repaid from the holding company and other subsidiaries. As noted above, these associated companies used the proceeds of shares sold to Hongkong Bank to repay these overdrafts.⁵⁷

The Bank also had close relations with Wing Hang Bank. The managing director of Wing Hang Bank, Fung Yiu King, was a close friend to SH Ho, Chairman of Hang Seng Bank. Wing Hang benefited from a cheap long lease on its premises supported by a HK\$3.5m loan from Hang Seng Bank.⁵⁸ Also, in July 1965 Hang Seng was reprimanded by the banking commissioner for claiming that HK\$3.5m on time deposit with the Wing Hang were liquid assets.⁵⁹

Hang Seng's profits expanded extremely quickly in the early 1960s, from HK\$4.2m in 1961 to HK\$18.8m in 1964, reflected in dividend payments of HK\$750 thousand each year from 1961-63, leaping to HK\$1.3m in 1964.⁶⁰ The judgement of the Hongkong Bank auditor was that Hang Seng Bank had sought profit above prudence: 'while profit is a necessary incentive to any business, the method and extent of its procurement must be subordinated to overall banking as opposed to secular, selfish interests.'⁶¹

Figure 1 shows the decline in liquidity of the Hang Seng Bank. Liquidity was adequate at the end of 1964 but deteriorated drastically after that. This was part of a longer-term trend in the erosion of the liquidity of the bank. The situation at Hang Seng was gradually turned around and it is a strong and reputable bank in Hong Kong today. By the end of 1965 the advances/deposit ratio had reached 87% but fell to 61% by 1966 and to 49% by March 1968. Specified Liquid Assets as a percent of deposits increased from its low of 6% in April 1965 to recover its level of 30% by the end of the year. By 1967 the liquidity ratio had reached 60%, on a par with that of the Bank of East Asia. This gain in liquidity was achieved by expanding deposits while holding the level of advances steady and ensuring that all new loans included and enforced a strict repayment schedule. In April 1968 the Hang Seng Bank began to pressure for permission to increase its lending and the Hongkong Bank agreed to a ceiling on the liquidity ratio to 55%, which would generate about HK\$8.1m extra income p.a. interest.⁶² In February 1969 the Hongkong Bank rejected a request by

QW Lee of the Hang Seng Bank to increase the level of property finance on the grounds that such finance should only be 20% of deposits for a commercial bank but was already one third of deposits at Hang Seng.⁶³

Yau Yue Commercial Bank was also supported by the Hongkong Bank during the 1965 crisis and gives a contrasting example of a small bank that was engaged in thoroughly imprudent practices. After inquiries by the Banking Commissioner in October 1965, the General Manager of the bank pledged to increase capital by HK\$3m to provide for bad and doubtful debts but this was not done. Loans to directors and their relatives amounted to two thirds of the bank's paid up capital and reserves in February 1966 and 75% of total loans were unsecured. The auditors appointed by the Banking Commissioner concluded in May 1966 that the bank was 'carrying on its business in a manner detrimental to the interests of its depositors and creditors'.⁶⁴ Provision for bad and doubtful debt at that time exceeded paid up capital and reserves by HK\$3.5m. Conditions improved only marginally by August and finally in September 1966, the Banking Commissioner deemed it insolvent and the Hongkong Bank took over its management with 1021 creditors claiming over HK\$25m.⁶⁵ In the meantime the auditors reported that the bank had made very little effort to recover its debts and that most of the loans were on the basis of personal guarantees that were not worthy. The Hongkong Bank's judgement was 'that a bank could accept such guarantees – without ensuring that they are backed by tangible security legally pledged and retained in safe custody – is, to say the least, incredible.'⁶⁶ Deposits were reduced but the level of unsecured advances proved intractable. The bank was finally wound up in March 1969 after being nursed for almost 3 years.

These two examples present different aspects of the banking problems in Hong Kong. Yau Yue was clearly involved in more risky behaviour than the Hang Seng, which was more the victim of over-expansion. Both cases highlight, however, that the lack of prudential supervision was clearly an important weakness in the regulatory framework. Enforcement of existing regulations in the case of the Yau Yue Commercial Bank was also prolonged. The inter-connected banking, commercial and industrial networks in Hong Kong also contributed to 'insider-lending' and creative book-keeping. In terms of transparency, simple published balance sheets could easily cover up portfolio weaknesses. The volatility of international trade and of the stock exchange and property markets made this weak institutional practice a particularly

dangerous feature for Hong Kong banking.

A final shock to the banking system in the 1960s was caused by the Hong Kong riots in May 1967 associated with the onset of the Cultural Revolution in China. Bank deposits fell by 13% as overseas Chinese took their money out of Hong Kong and local residents hoarded their savings. There was also some flight from the Hong Kong Dollar that pushed the free market rate up sharply. This time, however, there were no bank failures. The Governor, Trench, warned the Bank of England that there had been a run on the Sheung Shiu branch of the Hongkong Bank due to rumours that it was running out of cash and reports of a pending Chinese invasion in the local Left-wing press. Radio reports were broadcast to calm the public's nerves. Trench increased the local note issue by £7m in May and drafted legislation to restrict the value of deposit withdrawals but in the end this was not necessary. He also asked the Bank of England to consider the possibility of making sterling legal tender as in 1965, although this too proved unnecessary.⁶⁷ The Hongkong Bank had no difficulty honouring its depositors by drawing on its reserves at its London office, but the experience made them nervous enough to want to ensure that the London office held the bank's reserves in liquid assets.⁶⁸ At the end of 1967 HK\$10m of savings account that had been drawn out during the crisis had still not returned. Also HK\$80m was drawn from call and fixed deposits and a further HK\$70m by the Hang Seng Bank from their deposits at call. Deposits at call had recovered by the end of 1967 but fixed deposits continued to decline.⁶⁹

The underlying problems exposed by the banking crises of the 1960s were recognised at the time and amendments were made to the Banking Ordinance in 1967 to improve standards. Under-capitalised, illiquid, and even fraudulent banking was still a problem. In 1967 32 banks still had paid-up capital below HK\$10m, and some were found to have appointed unqualified auditors to certify that their balance sheets were accurate.⁷⁰ The amendments to the Ordinance raised the minimum capital for establishing a bank from HK\$5m to HK\$10m to weed out small initiatives. However, the implementation of this restriction was quite lax. To allow for existing small banks, a grace period of four years was allowed after which deposits were limited to 10 times the bank's paid up capital and reserves if this did not meet the HK\$10m limit. Another new requirement was that only net balances with other banks were allowed in the category of specified liquid assets to avoid inter-bank lending for window dressing purposes. The formality of the auditing process was strengthened

by giving the Banking Commissioner the right to appoint a second independent auditor. Also, banks were now formally required to maintain a provision for bad or doubtful debts to provide for a cushion in times of asset market downturns. Finally, the supervisory powers of the Banking Commissioner as separate from the Financial Secretary were strengthened.

A more fundamental response to the 1965 crisis was the decision that Hong Kong was 'over-banked' and that excessive competition was threatening the stability and integrity of existing banks. Although only two banks actually failed as a result of the crisis, a total of 7 banks ceased operating during 1965. An informal moratorium was imposed on bank licenses to squeeze out new entrants. The moratorium was made official in 1967 and lasted until 1978. Existing banks, however, continued to expand deposits and to open new branches. Because of the demand for wholesale banking services in Hong Kong foreign banks entered the market through acquisition of existing banks and new institutions operated outside the Ordinance as Deposit Taking Companies. It was some of these DTCs that were part of the banking crisis of 1982-84, which also followed immediately after new banking legislation had been introduced in 1981.

Impact and Implications

The impact of the banking crises of the 1960s on the Hong Kong economy are difficult to detect, especially since the 15% surcharge imposed from October 1964 to May 1966 on UK imports from Hong Kong was a separate factor affecting industry and trade. In June 1965 the Hongkong Bank reported that inward letters of credit fell due to a loss of confidence partly as a result of the banking crisis but also because of the recession in cotton textile industry. Credits opened at the Hongkong Bank by other local banks also declined by HK\$8.5m in the first half of 1965 compared with the same period of 1964 due to liquidity problems.⁷¹ Deposits fell briefly but recovered and continued to grow steadily. Borrowers that were unable to arrange loans with the larger and more established Hong Kong banks were probably worst affected. They had been used to borrowing from smaller banks at extraordinarily high interest rates reflecting the risk of these ventures and the poorer quality of collateral.⁷² Jao suggests that the 1965 crisis led to a squeeze mainly for marginal borrowers and trade credit as a result of harsher terms on loans.⁷³ Total advances to commerce and industry are shown quarterly in Figure 3. This shows that after the 1965 crisis there is certainly a

break in the upward swing in lending from the end of 1961. The ratio of loans to deposits for the banking system as a whole fell in 1966 by over 5%. There was some recovery in the last quarter of 1966 and a peak in June 1967, just after the May disturbances as deposits fell. Total advances receded although the ratio of loans to deposits actually rose slightly in 1967.

Evidence on interest rates for loans is sketchy. The Hongkong Bank's lending rates against different forms of collateral is presented in Table 1. This shows an increase in the prime lending rate related to the rise in Bank Rate in London, but no significant rise elsewhere. Loans appear to have been controlled more through credit rationing than through the interest rate structure. Rates on advances from the Hang Seng Bank at the end of April 1965 were generally about 3% p.a. higher than at the Hongkong Bank.⁷⁴ The Hongkong Bank's interbank overnight rate increased only from 7% in June 1966 to 7.25% in June 1967 during the crisis.⁷⁵

TABLE 1

Lending rates at end year	1963	1964	1965	1966	1967
Collateral					
Prime			6.5	7.5	8
Clean		7.5	8.25	9.25	9-9.75
Shares	7.5	8	8-8.5	8.5-9	8.5-9
Property		10	10.25-10.75	10.75-11.25	9.75-11.5
Ships		8	7-8.25	8.25-8.75	8.75-9

Source: HSBC, GHO201

After the 1967 crisis, the Hongkong Bank noted that some banks (Chinese and American) had reduced their advances but this was not the Hongkong Bank's policy since 'many of the advances on our books are tied so closely to the economy of the Colony that it is virtually impossible to restrict them or rather to reduce them to any degree'.⁷⁶ The balance of loans outstanding at the Hongkong Bank against imports declined steadily from a peak in June 1964 of HK\$141.4m to a low of HK\$93.7m at the end of 1967.⁷⁷ The turnover of inward bills by local banks fell from HK\$162m, to HK\$131m between 1964 and 1965 but it had recovered the 1964 level by 1967.⁷⁸ Both loans and overdrafts increased sharply at the Hongkong Bank in 1965 so their lending was not curtailed. *The Economist* reported that lending was generally maintained through the 1967 crisis, although new loans were not so easy to come by and many smaller banks were calling in some loans and restricting existing overdrafts. They alleged that the Communist Chinese banks in Hong Kong suffered the largest

fall in deposits because of a loss of political confidence.⁷⁹

Jao argues that the impact of the banking crisis was most intense on the property sector where the bubble in land values burst and was followed by a dramatic slump in property prices. Table 2 shows estimates of land values, showing the large variation by area and that the highest proportional drop occurred, predictably, in the banking and central districts. Through 1966 and 1967 the property market remained in a lull and the stock exchange was generally inactive. The fall in land values contributed to the government's first budget deficit in 1966, since a considerable amount of government revenue was from sales of land leases. In response, the financial secretary raised taxes in 1967. Jao concludes that the overall impact of the crises of 1965 and 1967 on the economy otherwise was not substantial because of the liquidity pushed into the system by the increase in the currency issue that offset the decline in deposits.⁸⁰ The quick and consistent reaction of the government and the note-issuing banks offset the potential negative monetary shock of the banking crises.

Table 2: Estimated Approximate Range of Land Prices (HK\$ per foot sq.)

Area	1963/4	End 1967
Banking District	2000-2500	600-800
Central District	1000-1200	200-300
Tsimshatsui	900-1000	250-300
Mongkok	600-700	200-250
Wanchai	480-530	150-200
Causeway Bay	450-500	200-250
Shan Po Kang	90-100	40-50
Kun Tong	80-90	30-35

Source: Jao (1974), p. 263.

The importance of a lender of last resort to forestall banking crises turning into financial crashes is well established.⁸¹ The failure of the Fed to offset declines in the money supply during the banking crisis of 1931-33 is the most famous example of the dangers of ignoring this requirement.⁸² Hong Kong is particularly interesting in this respect because there was no central bank to provide this support. Instead, this account of the 1961-67 crises has shown that the Hongkong Bank and the Chartered

Bank provided emergency credit to illiquid banks in order to allay depositor panic. The Government also offered liquidity through the central reserves by making sterling available as emergency legal tender, although this was not in the end required. The government also used its resources to partially reimburse depositors and to cover failed banks' debts. In this way they offered a limited form of ex post deposit insurance.

Hong Kong approaches a case of 'free banking' in that the currency was issued by private banks and the money supply was governed by a currency board with a fixed 100% sterling reserve.⁸³ The overall money supply was therefore determined primarily by the balance of payments. This account has shown, however, that the note issuing banks and the government used their considerable reserves to influence changes in the money supply in response to the banking crises. Moreover there was not free competition in note issuing, since charters being given to only three banks and since part of the currency issued by the government.

The experience of Hong Kong shows that a central bank is not necessary for the provision of lender of last resort facilities, given prominent locally or foreign-incorporated banks that are willing to take on this responsibility. However, Jao is critical of the lender of last resort facilities provided by the private banks because it was not 'mandatory' and the effect of the clumsy first attempt by the Hongkong Bank in the case of the Canton Trust failure seems to justify this.⁸⁴ After this episode, however, the note-issuing banks and the government together made much more determined and convincing efforts at providing liquidity in the wake of subsequent crises. The lack of deposit insurance was another weakness, although it was shown that this was partially offered by the government ex post to creditors of the Canton Trust Bank. The lack of transparency over deposit insurance and lender of last resort facilities was still considered a weakness in Hong Kong's regulatory scheme at the end of the 1990s.⁸⁵

One benefit that private banks gain from providing lender of last resort services is that it promotes a closer relationship with the state. Both the Hongkong Bank and Chartered Bank were issuers of currency and bankers to the government, and staff from the Hongkong Bank administered the exchange control system, although these roles were not directly related to the lender of last resort function.⁸⁶ The Hongkong Bank also held the reserve for the government note and coin issue and was the central clearing bank for the system and so benefited from inter-bank deposits. More

fundamentally, it was in the interests of large banks to take on the duty of lender of last resort because they benefited from ending the periodic crises and the negative impact this had on their own balance sheets. This account has shown that the 'privilege' accompanying this responsibility did generate some resentment among other banks, particularly Chinese banks who lobbied for the establishment of a central bank. This was clearly rejected by Oliphant in his article in the *Far Eastern Economic Review* when he argued that a central bank would be a waste of money since these services were already adequately provided by private banks.

The importance of bank regulation to ensure bank stability is the subject of considerable debate in the economics literature.⁸⁷ While a lender of last resort can preserve macro-stability during a crisis, it is argued that regulation can actually destabilise individual banks by limiting diversification or branching activity or introducing moral hazard. This account has shown that the position of the Financial Secretary was consistently against increased regulation. The attitude of private banks was more complex. The draft ordinance produced by Oliphant in the Hongkong Bank put emphasis on capital reserves and was aimed at preventing small banks from destabilising the system as a whole, but his draft also included more central banking duties such as interest rate determination and regulation of lending policy. Most Hong Kong banks advocated some prudential regulation but objected to particular provisions that threatened their traditional lending practices. In the case of the Hongkong Bank, this pertained to loans to businesses in which the bank's directors were involved. In the case of other banks, this pertained to loans for property and stock exchange investment. In the end, a compromise was reached that did not meet the requirements of enforcing prudent portfolio management, leading to recurring crises in the years to come. The extra cost of regulation was also of concern to the financial secretary. Small 'native' banks were exempted from the provisions for minimum capital, liquidity and portfolio restrictions although they were required to remain unincorporated and deposits were restricted to HK\$2m. The Financial Secretary also reduced the burden of auditing from two auditors to one.

The key elements of the 1964 Banking Ordinance sought to restrict 'insider lending' and discourage the domination of volatile assets such as real estate and shares in banks' portfolios. This account has shown that insider lending was a threat to individual bank stability and, through contagious panic, to the stability of the banking system as a whole. The Hongkong Bank fought hard to establish that their

special position at the pinnacle of the industrial and commercial activity of the colony obviated against the kind of restrictions on insider lending that pertained in more developed and diversified economies. They tried to get a special exemption on the grounds of their size and charter status, but Tomkins decided that they could not be treated more favourably than other banks. The result was a weak compromise that recognised the relatively small business and commercial community in Hong Kong but tried to avoid the excesses of bank owners or chairmen raiding their banks' resources. Interestingly, Lamoreaux, has described the importance of insider lending at an early stage of industrialisation in her study of New England in the nineteenth century.⁸⁸ The growing literature on Chinese business networks also emphasises the importance of personal contact in the accumulation and allocation of capital.

The vulnerability of the banking system to fluctuations in the property and stock markets remained a weakness, particularly for small undercapitalised banks. The restrictions on the proportion of loans to these sectors set out in the Banking Ordinance proved inadequate to forestall further crises. The stock exchange boom of 1972/73 provoked a run on a few banks but this did not create the same level of panic as was experienced in 1965. Ten years later, however, the failure of the Hang Lung Bank sparked off a further series of banking crises in 1982-4, which led to the failure of seven more banks. Jao blamed the weakness of the banking system in the 1980s on the persistence of family ownership combined with continued inadequate regulatory control.⁸⁹ This prompted further piecemeal regulatory responses throughout the 1980s. As Montes argues, the experience of the banking system highlights the key elements in Hong Kong's development as a financial centre, namely 'the strong lead of the private sector, with regulatory institutions playing catch-up; and the rapid growth punctuated by systemic crises'.⁹⁰

Conclusion

This account has shown how the banking crises in the 1960s prompted a faltering effort toward greater regulation of banking and prudential supervision. This process was faltering because of the protracted negotiations involved between Tomkins, the Hong Kong government, the local banks and, finally, delays from the London end in approving the legislation. JJ Cowperthwaite, financial secretary, was vigorously opposed to excessive banking regulation on grounds that it might waste resources and interfered with the operation of the market. There is also evidence that for political

purposes the government did not want to be seen to be targeting the smaller banks that were overwhelmingly owned by local Chinese.

The result was that the ordinance was a relatively weak document that required periodic revision and still did not forestall the repetition of banking crises through to the 1980s. The large number of small banks and the vulnerability of the system to property and stock exchange speculation has been an on-going weakness of Hong Kong's banking sector. After the Asian financial crisis of 1997 the authorities began to enhance competition by dismantling some of the regulations introduced in the 1960s, including the interest rate agreement on deposits (eliminated in July 2001) and barriers to entry for foreign banks. As in the 1960s, smaller local banks complained that increased competition would be at their expense, but this time it seems that the Hong Kong Monetary Authority will over-ride these considerations.⁹¹ At the same time the HKMA has committed itself to measures to enhance its supervision of the banking system and to formalising deposit insurance (planned for 2002) and lender of last resort functions (latter completed June 1999).⁹² It seems that the lessons of the 1960s crises may have finally been learned.

Figure 1: Year End Liquidity Ratio

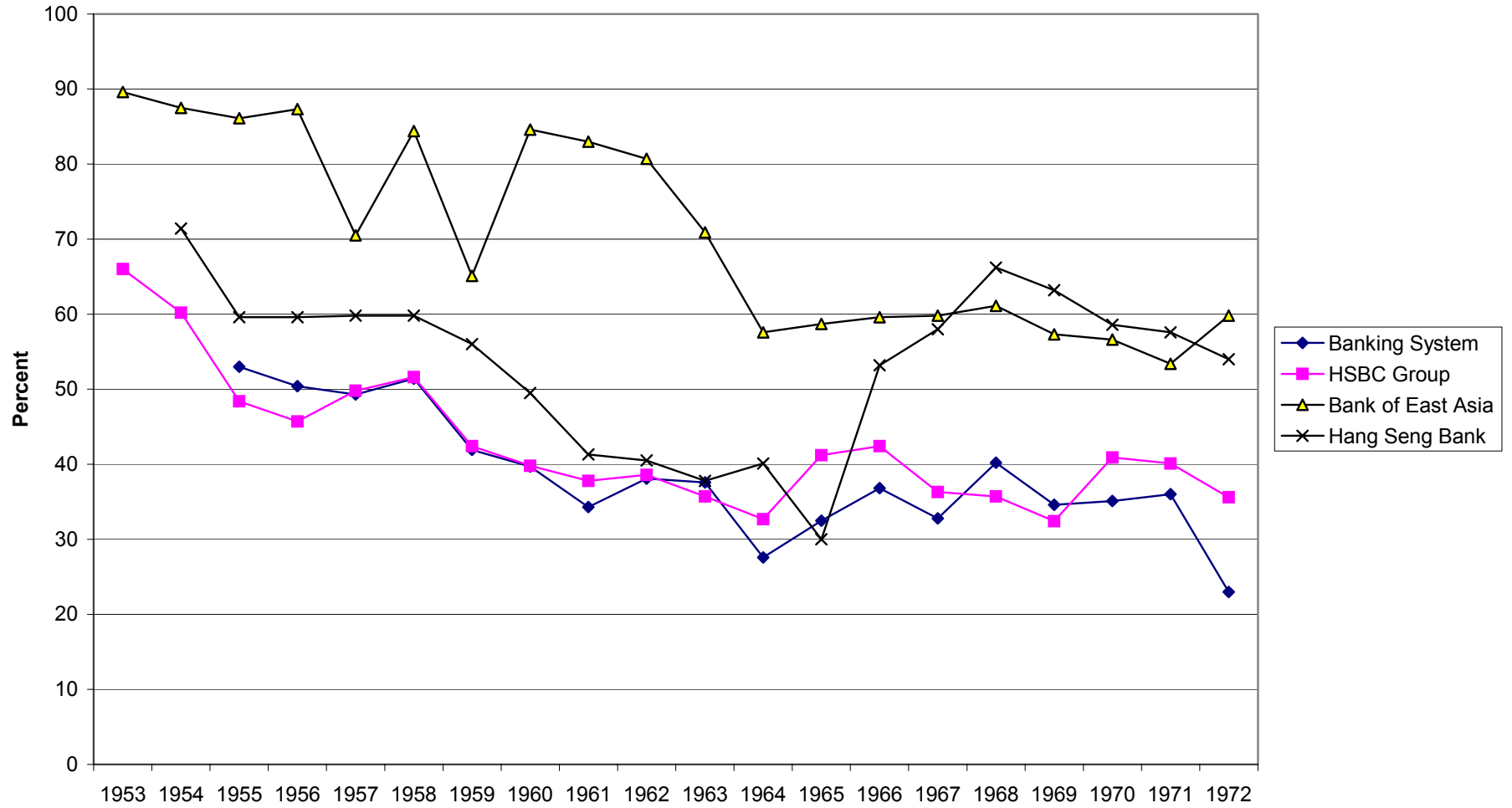


Figure 3: Loans and advances to commerce and industry

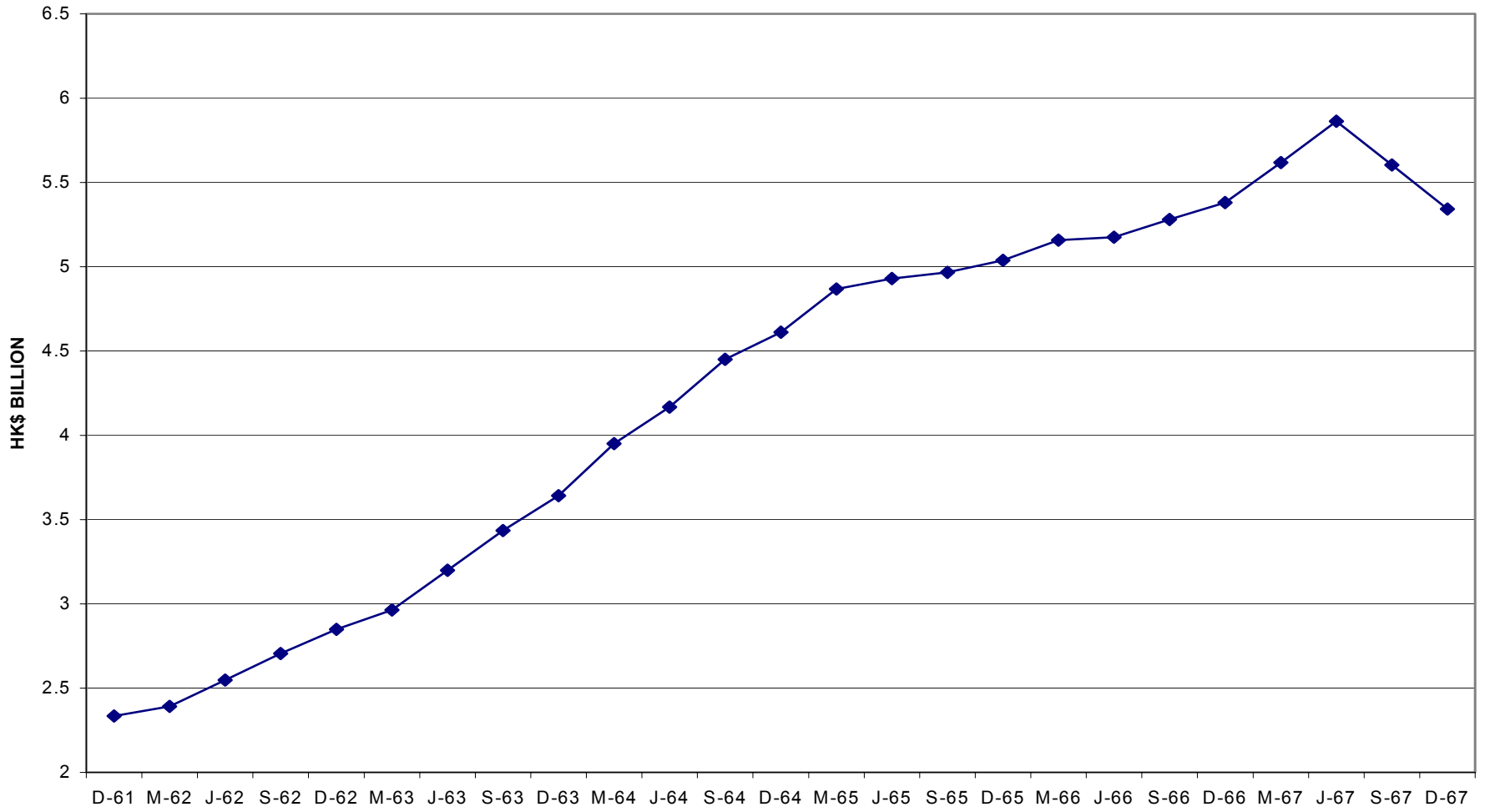
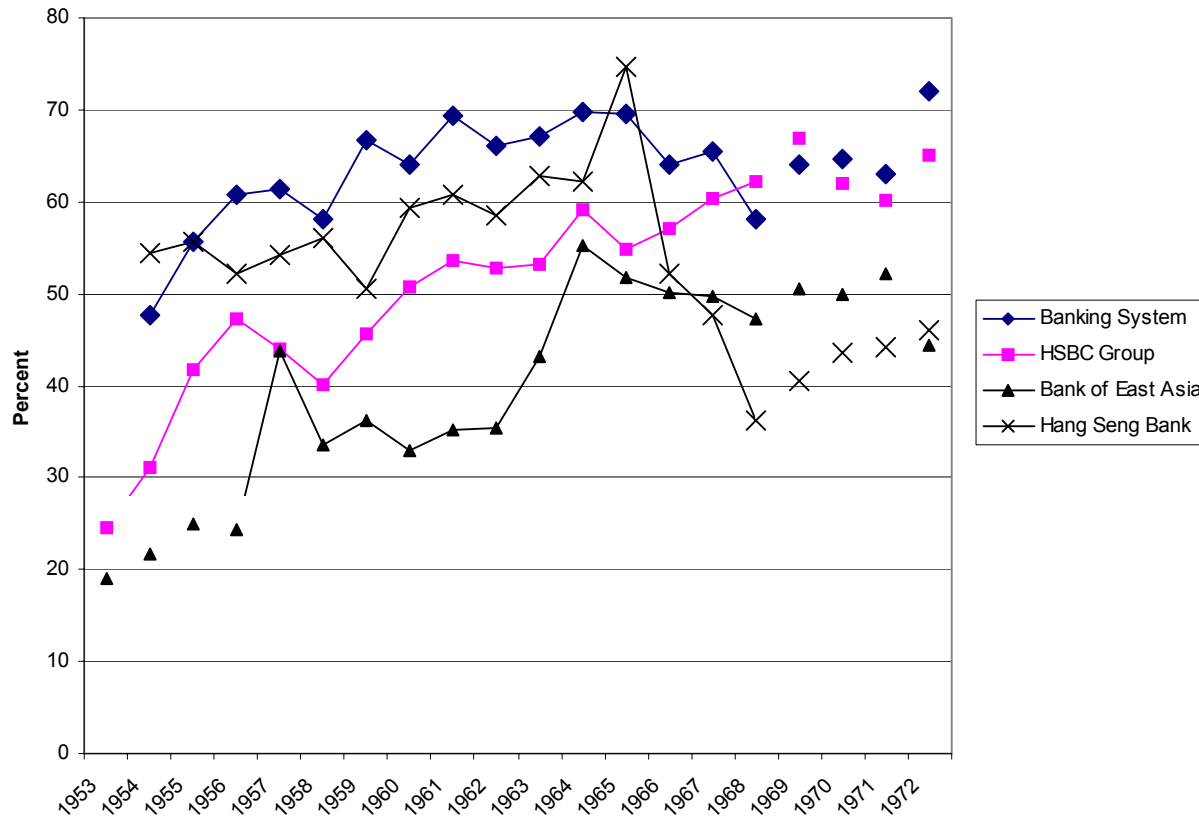


Figure 2: Year-End Loan-Deposit Ratio



¹ The author would like to thank the archivists at the HSBC Group Archive and the Bank of England for their support for this project. Part of the research was funded by the British Academy.

² CR Schenk, Hong Kong as an International Financial Centre: emergence and development 1945-65, Routledge, 2001.

³ Ghose, (1987), p. 63.

⁴ Far Eastern Economic Review, 19 November 1947, p. 596.

⁵ The official definition was an institution which engaged 'in the receipt of money on current or deposit account or in payment and collection of cheques drawn by or paid in by a customer or in the making or receipt of remittances or in the purchase and sale of gold or silver coin or bullion'.

⁶ 'Chinese Boomerang', The Economist, 18 November, 1967. This proportion was widely cited elsewhere.

⁷ This pushed up the value of dock and wharf listings.

⁸ Hongkong and Shanghai Banking Corporation Annual Report, 1961.

⁹ Liu Chong Hing Bank Ltd 40th Anniversary, Hong Kong 1988.

¹⁰ Ng (1962), p. 67.

¹¹ Minutes of the London Consultative Committee, HSBC, 13 July 1961. Chairman's Papers Carton 4, HSBC Group Archives [hereafter HSBC].

¹² Letter from Tomkins (in Hong Kong) to Heasman (London), 1 March 1962, Bank of England Archive [hereafter BE] OV14/21.

¹³ Liu Chong Hing Bank became an authorised exchange bank in 1967 and in October 1973 Mitsubishi Bank bought a 25% interest in it. By 1987 Liu Chong Hing had assets of \$HK7 billion. Liu Chong Hing Bank Ltd 40th Anniversary, Hong Kong 1988.

¹⁴ YS Cheng, MH Wong and C Findlay, 'Singapore and Hong Kong' in RH McLeod and R Garnaut eds., East Asia in Crisis: from being a miracle to needing one?, Routledge, 1998, pp. 162-178. p. 170.

¹⁵ YC Jao, The Asian financial Crisis and the Ordeal of Hong Kong, Greenwood Publishing (2001), pp. 95-101.

¹⁶ Jao, 'Recent Bank Crises in Hong Kong and Taiwan; a comparative perspective' in MK Nyaw and CY Chang eds., Chinese Banking in Asia's Market Economies, (1989), pp. 15-48.

¹⁷ Letter from Hallows to Haslam after a visit to Hong Kong, 3 June 1960. BE OV14/21.

¹⁸ Note by Hallows, 3 June 1960. BE OV14/21.

¹⁹ Note by WF Hughes, Overseas Office, Bank of England, 2 June 1960. BE OV14/21.

²⁰ Memo by Hallows of a conversation with JAH Saunders, 15 June 1961. Letter from P.L.Hogg to Heasman, 24/8/61. BE OV14/21.

²¹ Cowperthwaite (HK) to Tomkins (London), 24 January 1962. BE OV14/21.

²² HJ Tomkins, Confidential Supplementary Notes on draft Hong Kong Banking Ordinance, 1 April 1962. BE OV14/22.

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- ²³ HJ Tomkins, Confidential Supplementary Notes on draft Hong Kong Banking Ordinance, 1 April 1962. BE OV14/22.
- ²⁴ Tomkins to Cowperthwaite, 12 July 1962. BE OV14/22.
- ²⁵ Sinn, Growing with Hong Kong. : the Bank of East Asia 1919-1994, (1994) p. 124.
- ²⁶ Far Eastern Economic Review, 22 April 1965., pp. 175-81.
- ²⁷ FHH King,(1985), p. 615.
- ²⁸ Letter from QW Lee, Manager of Hang Seng Bank, to HJ Tomkins, 18 June 1962. BE OV14/22.
- ²⁹ Letter to Financial Secretary HK from Oliphant, 23 June 1962. File on Tomkins Report, Chairman's Papers Carton No 5, HSBC. See also memo from Tomkins to Watson (Bank of England), 20 September 1962. BE OV14/22.
- ³⁰ HJ Tomkins, Confidential Supplementary Notes on draft Hong Kong Banking Ordinance, 1 April 1962. BE OV14/22.
- ³¹ Galsworthy to Cowperthwaite, 11 August 1964. Public Records Office, Kew, London [hereafter, PRO] CO1025/174. In the presentation of the Banking Ordinance to the Hong Kong legislature at the end of 1964, this provision was signalled as planned for the future.
- ³² Reported by Bank of England, 7 January 1965. PRO CO1025/175.
- ³³ The State-controlled Chinese banks and banks incorporated in Malaya were part of the A1 group. There were no restrictions on deposits over 12 months.
- ³⁴ Jao, Banking and Currency in Hong Kong, (1974) p. 253-4.
- ³⁵ Report by Bank of England, 7 January 1965. PRO CO1025/175
- ³⁶ Far Eastern Economic Review, 14 April 1966, p. 75. See also Jao (1974), pp. 244-45.
- ³⁷ Letter from Oliphant (Hong Kong) to Stewart (London), 4 February 1965. R.G.L. Oliphant's Private file, Chairman's Papers Carton No. 4, HSBC. Both the Hongkong Bank and the Bank of England urged the Government of Hong Kong to take the opportunity of the 1965 banking crisis to 'weed out some of the weaker brethren amongst the banks'. Stewart to Oliphant, 12 February 1965. R.G.L. Oliphant's Private file, Chairman's Papers Carton No. 4, HSBC.
- ³⁸ Jao, Banking and Currency, p. 248. See also G. Davies, 'Hong Kong banking after the Crisis', The Banker, CXV, no. 470, April 1965, pp. 243-251, p. 246.
- ³⁹ The Hongkong Bank supported the Hang Seng Bank and later Wing Lung and the Far East Bank. Chartered Bank supported Kwong On and Dao Heng bank.
- ⁴⁰ Far Eastern Economic Review, 14 April 1966, p. 75.
- ⁴¹ The restrictions on withdrawals were lifted on 15 February after the arrival of sterling notes to ease liquidity. Sinn, Growing with Hong Kong. See Jao, Banking and Currency, p. 244-50 for more detail on the 1965 crisis.
- ⁴² Q.W. Lee, Chairman of Hang Seng gives a brief account of the Hang Seng take-over in 'Banks and Bankers' in S. Blyth and I. Wotherspoon eds., Hong Kong Remembers, Hong Kong, Oxford University Press, 1996, pp. 185-91.
- ⁴³ Report by Chief Accountant, 10 April, 1965. GHO508, HSBC.

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- ⁴⁴ The Hongkong Bank figures are consolidated accounts of all their global branches.
- ⁴⁵ GHO 322, HSBC.
- ⁴⁶ Tai Sang Bank was so small that this only amounted to HK\$5.9m but the losses of the Wing Lung bank amounted to HK\$43m.
- ⁴⁷ Note by P.E. Hutson, 15 July 1965, GHO 322, HSBC.
- ⁴⁸ Internal Audit, May 1965. GHO322/2, HSBC.
- ⁴⁹ Memo from Lee Wing Heng, sub manager of Hang Seng Bank to Hongkong Bank, 11 April 1968 and undated response (April 1968), GHO322/4.
- ⁵⁰ GHO322, HSBC.
- ⁵¹ Hang Seng Bank Ltd Progress Report by JN Frost, Assistant Manager Hongkong Bank. 30 September 1965. GHO322, HSBC.
- ⁵² Internal Audit, May 1965. GHO322/2, HSBC.
- ⁵³ Hang Seng Bank Ltd Progress Report by JN Frost, 30 September 1965. GHO322, HSBC.
- ⁵⁴ Hang Chong held 70% of the shares in February 1965. Certified Copy of the Resolution by Hang Seng Bank Ltd., 9 February 1965. GHO508, HSBC.
- ⁵⁵ Paid up capital had been increased from HK\$15m to HK\$30m between February and April 1965 by capitalisation of reserves.
- ⁵⁶ The 'Family Tree' as at November 1965. GHO322, HSBC.
- ⁵⁷ Internal Audit, May 1965. GHO322/2, HSBC.
- ⁵⁸ Private Memorandum, 21 August 1965. GHO322 HSBC.
- ⁵⁹ Hang Seng Bank Ltd Progress Report by JN Frost, 30 September 1965. GHO322, HSBC.
- ⁶⁰ From published annual reports, GHO322/2, HSBC.
- ⁶¹ Hang Seng Bank Ltd Progress Report by JN Frost, 30 September 1965. GHO322, HSBC.
- ⁶² Memo from Lee Wing Heng sub manager of Hang Seng Bank, 11 April 1968. Undated memo by HSBC (April 1968).GHO322/4, HSBC.
- ⁶³ Note by PE Hutson, 4 February 1969 and memo of 8 February 1969. GHO322/5, HSBC.
- ⁶⁴ Report by Wong Tan and Co. to Cole, Banking Commissioner, 18 May 1966. GHO262/3, HSBC.
- ⁶⁵ GHO262/8, HSBC.
- ⁶⁶ Letter from IT Townsend, Assistant Manager HSBC to D. Da Roza (manager Yau Yue Commercial Bank), 24 June 1968. GO262/6, HSBC.
- ⁶⁷ Telegram from Trench (HK), 19 May 1967. PRO T295/241
- ⁶⁸ Memo by NHT Bennett, 26 May 1967. Chairman's Papers Carton 4, HSBC.
- ⁶⁹ Report on the Results of Hong Kong Office and Agencies HSBC, GHO201.

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- ⁷⁰ Far Eastern Economic Review, 27 April 1967, p. 187-9.
- ⁷¹ Report on the Results of Hong Kong Office and Agencies, June 1965. HSBC GHO201.
- ⁷² CR Schenk, 'Banking Groups in Hong Kong 1945-65', Asia Pacific Business Review, 7 (2), 2000, pp. 131-154.
- ⁷³ Jao (1974), p. 261.
- ⁷⁴ Report on the Results of Hong Kong Office and Agencies, June 1965. HSBC GHO201.
- ⁷⁵ Report on the Results of Hong Kong Office and Agencies, June 1965. HSBC GHO201.
- ⁷⁶ Memo by NHT Bennett, 26 May 1967. HSBC, Chairman's Papers Carton 4.
- ⁷⁷ Report on the Results of Hong Kong Office and Agencies. HSBC GHO201.
- ⁷⁸ Report to the Manager from W. Hargroves. Results of Hong Kong Office and Agencies. HSBC GHO201.
- ⁷⁹ 'Chinese Boomerang', The Economist, 18 November 1967.
- ⁸⁰ The price per square foot of land in the Banking District fell from HK\$2000-2500 in 1963/4 to HK\$600-800 by the end of 1967. YC Jao (1974), pp. 259-67.
- ⁸¹ The classic case was put by Bagehot in Lombard Street: a description of the money market, 1873. For a recent review see, G. Wood, 'Great Crashes in History; have they lessons for today?', Oxford Review of Economic Policy, 15(3), pp. 98-109.
- ⁸² The classic account is M. Friedman and A.J. Schwartz, A Monetary History of the United States, NBER, 1963, Ch. 7. It is interesting that this was published two years before the Hong Kong banking crisis.
- ⁸³ On the nature of free banking see, LH White, Free Banking in Britain; theory, experience, and debate, 1800-1845, Cambridge U. Press, 1984.
- ⁸⁴ Jao (1974), p. 257-58.
- ⁸⁵ KPMG-Barents, Hong Kong Banking into the New Millennium; Hong Kong Banking Sector Consultancy Study, December 1998.
- ⁸⁶ King argues that the monetary benefit of printing the currency was not very great in Hong Kong's case. FHH King, Money in British East Asia, HMSO, 1957. p. 123.
- ⁸⁷ G.J. Benston, 'Does Bank Regulation Produce Stability? Lessons from the United States', in F. Capie and GE Wood eds., Unregulated Banking: Chaos or Order?, St. Martin's Press, NY, 1991, pp. 207-32.
- ⁸⁸ NR Lamoreaux, Insider Lending; banks, personal connections, and economic development in industrial New England, Cambridge University Press, 1994.
- ⁸⁹ Y.C. Jao, 'Recent banking crises in Hong Kong and Taiwan'
- ⁹⁰ M.F. Montes, 'Tokyo, Hong Kong and Singapore as competing financial centres', in G. de Brouwer and W. Puppavesva eds., Asia Pacific Financial Deregulation, London, Routledge, 1999, pp. 151-70, p.160.
- ⁹¹ HKMA, Hong Kong Banking into the New Millennium; Policy Response to the Banking Sector Consultancy Study, July 1999.

⁹² KPMG-Barents, Hong Kong Banking into the New Millennium: Hong Kong Banking Sector Consultancy Study, December 1998. This report was commissioned by the HKMA.